

Supreme Court, U. S.  
**FILED**

JUN 20 1978

MICHAEL RODAK, JR., CLERK

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IN THE  
**Supreme Court of the United States**  
OCTOBER TERM, 1977

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No. 77-832

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**BOARD OF GOVERNORS OF THE FEDERAL RE-  
SERVE SYSTEM,**

*Petitioner,*

vs.

**FIRST LINCOLNWOOD CORPORATION,**

*Respondent.*

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On Writ of Certiorari to the United States  
Court of Appeals for the Seventh Circuit

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**BRIEF FOR AMICUS CURIAE INDEPENDENT BANKERS  
ASSOCIATION OF AMERICA**

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**OPINIONS BELOW**

The brief for the Federal Reserve Board correctly cites the 1977 decision *en banc* of the Court of Appeals for the Seventh Circuit and the 1976 panel decision of that Court which includes the Board's order denying application of First Lincolnwood Corporation, in Illinois, to become a one-bank holding company.



## JURISDICTION AND STATUTE INVOLVED

The Board's brief correctly states the matter of jurisdiction and the statute involved.

## QUESTION PRESENTED

Whether the Federal Reserve Board has unlimited discretion to apply self-legislated, arbitrary guidelines in acting upon an application to form a one-bank holding company when anticompetitive factors are not present.

## STATEMENT

*Amicus* accepts the statement of the case submitted by the parties herein.

### I.

## INTEREST OF AMICUS CURIAE

This brief is filed pursuant to Rule 42 of this Court with consent of all parties herein. (See *Amicus* App. pp. 1-2)

*Amicus* Independent Bankers Association of America is a nonprofit membership association composed of over 7,300 national and state banks in 41 states, including nearly 600 in Illinois.<sup>1</sup> These are banks, not associated with large and expansionist multibank holding companies or branching systems. Approximately 80% of its bank members have assets of less than \$25 million, about one-half being located in communities of less than 5,000 population.

In the 48 years of its existence, *Amicus* has pursued the purpose of preserving independent banking while pre-

<sup>1</sup>A similar association is composed of smaller banks in the remaining 9 western states.

venting concentration of control of banking resources. The expansionist tendencies of multibank holding companies (MBHCs) increasingly dominate banking markets, forcing independent banks to defensive competition, particularly because of the disparity in capacity for advertising and promotion.

In the 1955 hearings, Congress viewed this trend with alarm and noted that already 12% (\$23 billion) of the nation's total commercial bank deposits was controlled by MBHCs.<sup>2</sup> By the end of 1976, 34% (\$188 billion) was controlled by MBHCs. When the largest one-bank holding companies (OBHCs) are added (those controlling over \$50 million of deposits), the total deposits controlled are 67% (\$372 billion). In contrast 1,160 smaller OBHCs, those with less than \$50 million in bank deposits, control only 3.6% (\$19.8 billion) of the nation's bank deposits, an average of only \$17 million each.<sup>3</sup>

What Congress intended as a restraint measure has been converted into a permit law by the Board's administration. As will be shown later, the Board favors MBHC expansion.

Confronted with this trend, independent banks are finding it increasingly difficult to remain viable, and often find formation of a OBHC necessary. A OBHC is vital for two reasons: to raise capital to support growing deposits, and to transfer a smaller bank from one independent owner to another.

Moreover, under present tax laws, the formation of a OBHC is extremely beneficial. If loans are needed for either of these reasons, a OBHC provides more after-tax

<sup>2</sup>H. R. Rep. No. 609, 84th Cong. 1st Sess., Vol. 3, 8 (1955).

<sup>3</sup>See *Washington Financial Rep'ts*, Spec. Supp. July 18, 1977.



dollars for repaying the loan. The *graduated* individual income tax rate leaves fewer after-tax dollars as personal income increases. On the other hand, the *level* corporate tax rate provides more after-tax dollars. (See Tables in *Amicus* App. p. A-5) In addition, the OBHC can receive the bank's dividends tax-free (if it controls over 80% of the voting shares of the bank) and can realize other income from nonbanking activities permitted under Section 1843 of the Act. An insurance agency is commonly such an activity.

The interest of *Amicus* in this case is to urge that the OBHC form of ownership remains reasonably available. Increasingly, *Amicus* finds that frequently a retiring banker in selling the bank has basically two choices.

First, he can sell to a MBHC. Often the sale takes the form of a tax-free exchange of stock. The capital gains tax is then deferred until he sells part or all of the MBHC stock, or until the MBHC stock is transferred to his estate, when the capital gains tax will be minimal. Many retiring bankers dislike such a sale because the judgment center on bank credit shifts from the local community to the distant bank holding company.

Secondly, and the preferred alternative for many retiring bankers, is to sell to officers or directors of the bank in order to retain responsiveness to community needs. However, such buyers normally require a loan to complete the purchase, and require a OBHC to aid in repayment of the loan.

However, if the Board continues to make it extremely difficult to form a OBHC in such cases, this alternative will dissuade a local purchase. The result will be that more and more independent banks will be acquired by MBHCs, thus increasing an already excessive rate of concentration.

For these reasons, *Amicus* has a keen interest in the outcome of this case. If the court below is reversed, *Amicus* foresees great difficulty in preserving independent banking while preventing further concentration in banking.

## II.

### SUMMARY OF ARGUMENT

Federal bank holding company legislation has and continues to be concerned with the potential for concentration of banking resources and expansion into nonbank-related businesses. Multibank holding companies first became subject to comprehensive regulation under the Bank Holding Company Act of 1956. The purpose of the Act was to control MBHC expansion and to force divestiture of businesses not related to banking.

The current standards for Board action contained in the Act were adopted in 1966, following the pattern adopted under the Bank Merger Act earlier the same year. Since bank mergers and acquisitions both presented possible anticompetitive problems, Congress wanted a uniform standard for agency action on bank mergers and expansion of MBHCs.

One-bank holding companies were not covered by the Act until 1970. In the late 1960s, a few large OBHCs were formed and began widespread acquisitions of enterprises not related to banking. This was contrary to our longstanding national policy to separate banking and commerce, and was the primary reason for including OBHCs in the 1970 amendments to the BHC Act.

Shortly thereafter, the Board devised "guidelines" to apply to applications for the formation of OBHCs. These



"guidelines" fall outside of congressional concerns. They deal with terms and conditions of bank stock loans made by OBHCs for the purpose of increasing capital in the bank to support growth of deposits, or to help finance the purchase of a bank. These "guidelines" severely restrict the terms and conditions of such loans, and amount to an interference with the free play of the competitive loan market which previously existed.

The Board's record of administration of the BHC Act shows a decided bias in favor of MBHCs and against OBHCs. The Board uses an additional unwritten "guideline" to the effect that the BHC should always be a "source of strength" to the bank. This is used in many cases to deny OBHC formations, even though they present no anticompetitive or non-banking activity problems.

At the heart of this case is the Board's application of its "guidelines" to each OBHC application. Most problems presented in formations of OBHCs are due to the Board's own guidelines. The most onerous of these are (1) that the loan must be amortized within twelve years, and (2) that the BHC must be a "source of strength" to its subsidiary bank.

*Amicus* contends that the Board's arbitrary guidelines should be rescinded in order to permit the free play of the loan market which existed prior to 1970. There are adequate laws to deal with the occasional problems of "unsoundness" or "corrupt management" which might occasionally result from a free market. These laws are available to the Board and other bank supervisory agencies.

The Board should not be permitted to act as a super-agency using its "guidelines" to overrule national and state bank supervisors and the FDIC who are primarily responsible for bank soundness.

## ARGUMENT

### I.

#### THE LEGISLATIVE HISTORY OF THE BHC ACT DEMONSTRATES THE BOARD'S AUTHORITY TO CONSIDER BHC FINANCIAL STRUCTURE IS PRIMARILY LIMITED TO MATTERS OF CONCENTRATION AND ACQUISITION OF NON-BANKING SUBSIDIARIES.

To fully understand the discretionary powers of the Board of Governors of the Federal Reserve System (Board) under 12 U.S.C. §1842(c), an analysis of the history and purposes of bank holding company laws must be undertaken. This history will demonstrate that the arguments presented by the Board overemphasize its role as a regulator of banking institutions. Moreover, a review of legislative history will indicate that the Board has in the past and currently overlooks the primary concerns of Congress in the application of the Act: the concentration of financial resources and the expansion of OBHCs into non-banking fields. Furthermore, the Board's discussion of the history and provisions of various BHC laws is distorted because it fails to distinguish between MBHCs and OBHCs.

#### A. Early Legislation Indicated Only A Fear of Concentration of Financial Resources.

The history of federal bank holding company regulation began with early expressions of concern in the late 1920s. In his Annual Message to Congress in 1929, President Herbert Hoover noted that the "development of 'group' and 'chain' banking presents many new problems." He



added that the "question arises as to whether if allowed to expand without restrain these methods would dangerously concentrate control of credit. . . ." Thus the original impetus for federal BHC regulation was the fear of concentration of financial resources.

The first federal legislation dealing specifically with BHCs was the Banking Act of 1933 which applied only to *national* banks controlled by holding companies. It required that a holding company obtain a voting permit from the Board in order to vote the stock of a bank. The conditions for the permit included a requirement that the holding company, beginning 5 years after 1933, must possess a reserve of readily marketable assets which "may be used by it for replacement of capital in banks affiliated with it and for losses incurred in such banks. . . ." (emphasis added) Contrary to the Board's brief (pp. 25, 26), the 1933 Act did not require a BHC to be a "source of financial strength to its subsidiary bank."

Congress in enacting Section 61 made no attempt to prohibit or to restrict bank holding company activities, nor did it require supervisory approval of any action to be taken by BHCs. This is far different from the 1956 Act which created a prior approval system.<sup>4</sup>

Further proof that the 1933 Act was not "the precursor of section 3(c) of the BHC Act of 1956" (Board's brief p. 25) can be found in the Board's objection to Congress' 1956 attempt to repeal Section 61. The Board objected to the attempted repeal because the purposes of Section 61 and the 1956 Act differed. The Senate report stated:

<sup>4</sup>Englert, *The Development of Bank Holding Company Legislation*. *The Bankers Magazine*, 21, 22 (1971).

<sup>5</sup>Section 19, 48 Stat. 186, originally codified as 12 U.S.C. §61, repealed 1961.

<sup>6</sup>*Supra*, Englert, at 22.

"The Board had recommended that this matter not be included in the bill on the ground that the holding company affiliate provisions were directed primarily at maintaining the *soundness of member banks in holding company groups and therefore were beyond the scope of the objectives of the bank holding company legislation*. At the same time the Board indicated that it might be desirable eventually to modify the holding company affiliate provisions." (emphasis added)<sup>7</sup>

Two years later "the Banking Act of 1935 included a provision which resulted in most one-bank holding companies being granted exemptions from the 1933 Act."<sup>8</sup> It can be assumed that the reason for OBHC exemption in 1935 was that they presented no problems then, as in 1956, when Congress again concluded that OBHCs presented no problems. Accordingly, the foundation upon which the Board constructs its argument is suspect.

## B. The Bank Holding Company Act of 1956.

*Multibank* holding companies first came under comprehensive regulation by the Board with the passage of the Bank Holding Company Act of 1956. The primary purpose of the Act was to control MBHC expansion in order to prevent undue concentration of banking resources in MBHCs, and at the same time to force their divestiture of nonbanking enterprises not related to banking.

<sup>7</sup>Committee Print, *Amendments to the Bank Holding Company Act of 1956*, Senate Comm. on Banking and Currency, 89th Cong. 1st Sess., 1965.

<sup>8</sup>See, Board Study, *The Bank Holding Company Movement to 1978: A Compendium*, Section II, Savage *A History of the Bank Holding Company Movement, 1900-1978* (1978).



Chairman Martin, testifying on behalf of the Board in the 1955 hearings, thought legislation was needed due to:

"1. The unrestricted ability of a bank holding company group to add to the number of its banking units, making possible the concentration of commercial bank facilities in a particular area under a single control and management; and

2. The combination under single control of both banking and non-banking enterprises, permitting departure from the principle that banking institutions should not engage in business wholly unrelated to banking. Such a combination involves the lending of depositor's money, whereas other types of business enterprise, not connected with banking do not involve the settlement of trusteeship."<sup>9</sup>

The 1955 House Report stated:

"The holding company device lends itself readily to the amassing of vast resources obtained largely from the public, which can be controlled by the relatively few who comprise the management of the holding company, giving them a decided advantage in acquiring additional properties and in carrying out a program of expansion."<sup>10</sup>

The 1955 Senate Report stated:

"The factors required to be taken into consideration by the Federal Reserve Board under this Bill also require contemplation of the prevention of undue concentration of control in the banking field to the detriment of public interest and the encouragement of competition in banking."<sup>11</sup>

<sup>9</sup>S. Rep. No. 1095, 84th Cong. 1st Sess., 1955, reprinted in [1956] U.S. Code Cong. & Ad. News 2482-83.

<sup>10</sup>H. R. Rep. No. 609, 84th Cong. 1st Sess., Vol. 3 (1955).

<sup>11</sup>S. Rep. No. 1095, 84th Cong. 2nd Sess., 2482, et seq. (1955).

Both the Senate and House reports indicate that the purpose of Congress in adopting the Act was specifically for the purpose of controlling *multibank* holding company expansion and to prevent their engaging in nonbanking activities not related to banking. The Board's power of regulation over MBHCs should be interpreted as being necessary to carry out these purposes, and the Board's use of such phrases as "public interest" and "sound banking" should be construed within the context of these congressional concerns.

Consequently, the basis of the Board's argument as they relate to the formation of *OBHCs*, falls outside these congressional concerns.

### C. The 1966 Amendments To The BHC Act.

The 1966 amendments to the BHC Act of 1956 replaced the standards to be followed by the Board in the prior approval system.<sup>12</sup>

The standards were changed to conform identically with the standards adopted earlier in 1966 for bank mergers. 12 U.S.C. §1828(c)(5) The only explanation for this change is contained in the Senate report:

*"Conforming standards in holding company cases with those in mergers.—in the interest of uniform*

<sup>12</sup>Former Section 1842(c) contained 5 factors: (1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking. Section 3(c) of the Bank Holding Company Act, reprinted in [1956] U.S. Code Cong. & Ad. News 171.



standards, the Bill would amend §3(c) of the Bank Holding Company Act to require the Board, in acting on applications for the formation or expansion of holding company systems, to take into account the same factors as are specified in the recently amended Bank Merger Act (Public Law 89-356) for consideration in passing on bank mergers. See also item 19."<sup>13</sup>

In order to determine congressional purpose for changing the standards in Section 1842(c) it is necessary to review the legislative history of the identical change made earlier in 1966 in the Bank Merger Act.

The Bank Merger Act was originally enacted in 1960 to create a prior approval system for bank mergers at the administrative level instead of leaving their adverse effects to be dealt with entirely under the antitrust laws. The appropriate regulatory agency was required to review, and either approve or deny, a proposed merger.<sup>14</sup>

The 1960 Act was silent as to the role of the attorney general in commencing lawsuits under the Sherman or Clayton Acts to prevent or break up a bank merger. Between 1960 and 1966, three major court decisions found bank mergers to be unlawful after receiving agency ap-

<sup>13</sup>S. Rep. No. 1179, 89th Cong. 2nd Sess., 9, 1966, reprinted in [1966] U.S. Code Cong. & Ad. News 2393. Item 19 refers to the explanatory section which indicates that the same anti-trust procedures and uniform standards would apply under the Bank Holding Company Act as had been instituted under the Bank Merger Act. See p. 2394.

<sup>14</sup>The Comptroller for a resulting national bank, the Board for a resulting insured nonmember bank, and the FDIC for a resulting insured nonmember bank. The Bank Merger Act of 1960 amended the Federal Deposit Insurance Act, currently codified at 12 U.S.C. §§ 1811 et seq. The Act was applicable to all banks insured by the FDIC, which covers over 95% of all national and state banks. Prior to 1960, 12 U.S.C. §264, from which section 1828 is derived, required an insured bank to obtain consent of the FDIC only when it merged with a non-insured bank.

proval under the 1960 Act. *United States v. First Nat'l Bank & Trust Co.*, 376 U.S. 665 (1964); *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321 (1963); *United States v. Manufacturers Hanover Trust Co.*, 240 F. Supp. 867, (S.D.N.Y. (1965)).

Less than one month after the *Manufacturers Hanover* decision, S.1698 was introduced in an attempt to overrule the decision. The Bill originally provided that agency approval of a merger "shall be exclusive and plenary."<sup>15</sup> The proponents argued this system was adequate and that after such approval and consummation of the merger there would be great problems in unscrambling assets, if the merger should be found later to be unlawful under the antitrust laws.

The opponents argued that the record of the agencies in approving bank mergers was dismal and that antitrust prosecutions were needed as a backstop.<sup>16</sup> These hearings show that of 675 applications passed on by the banking agencies 644 were approved and only 31 disapproved.<sup>17</sup>

In the process of the hearings in 1965, the drastic provisions of S.1698 were temporized along the line of a suggestion made by Chairman Martin speaking for the Board:

"... to amend the Bank Merger Act to allow a specified time within which an antitrust action might be brought to prevent consummation of an approved merger and, if such an action were not filed during that time, the merger could be consummated and would be exempt from any proceeding under the antitrust laws."<sup>18</sup>

<sup>15</sup>Hearings on a Bill to Amend the Bank Merger Act before the Senate Committee on Banking and Currency, 89th Cong. 1st Sess., 6 (1965).

<sup>16</sup>*Id.* at 152.

<sup>17</sup>*Id.* at 152.

<sup>18</sup>*Id.* at 152.



The version finally enacted<sup>19</sup> included the standards which became the model for Section 1842(c) of the BHC Act. Thus, there is currently an identical set of standards for the regulatory agency to follow in both mergers and acquisitions.

The reason for uniformity is that in a *merger* a bank disappears from the competitive arena, while under the BHC Act the same thing happens in a slightly different way. In an *acquisition* by a MBHC, the acquired bank ceases to be a separate and independent judgment center for bank loans and services. Instead, the central management of the MBHC becomes the new judgment center. If a MBHC has 20 subsidiary banks, a businessman seeking a loan does not have 20 alternate sources of credit, only one. The sister banks in a holding company system do not compete with each other and its management maintains centralized credit files for the subsidiary banks.

In short, both Acts were designed to control anticompetitive effects of mergers and acquisitions by permitting the designated federal agency to approve mergers and acquisitions only if the public interest clearly outweighed the anticompetitive effects.<sup>20</sup> Antitrust actions are retained as a backstop if commenced within 30 days after agency approval.

As discussed below, after OBHCs were included in the Act in 1970, the Board has treated the last unnumbered paragraph of Section 1842(c) in isolation and applied that paragraph to OBHC formation applications in a manner inconsistent with the foregoing legislative history.

<sup>19</sup>12 U.S.C. §1828.

<sup>20</sup>See *Bank Holding Company Regulatory Experience Since 1970*, 8 Ind. L. Rev. 942, 944 (1975).

#### D. The 1970 Amendments To The Bank Holding Company Act.

In 1968 Congress became concerned that a few large OBHCs (then exempt from the BHC Act) were growing at a rapid rate and acquiring many nonbanking enterprises not related to banking. Some of the largest banks in the nation were acquiring such businesses as mining and manufacturing companies, nationwide chains of stores and insurance companies. Altogether there were numerous varieties of such nonbanking enterprises acquired by large OBHCs, many by a tax-free stock exchange, in the same manner that industrial conglomerates are formed.

This trend increased to such a point that in 1969 Congress conducted hearings aimed at placing OBHCs under the BHC Act and amending Section 1843 to permit BHCs to own only *bank-related* enterprises, while mandating divestiture of other businesses.<sup>21</sup>

The Senate report states the purpose of the amendments was to "continue our long-standing policy of separating banking from commerce."<sup>22</sup>

Mr. Patman, Chairman of the House Banking Committee, stated on the floor of the House:

"Congress did not think it necessary to regulate one-bank holding companies in the 1956 act because almost all of them at that time were quite small and had little overall economic power. But by 1969, due

<sup>21</sup>For the legislative history of the 1970 amendments, see H. R. Rep. No. 91-387, 91st Cong. 1st Sess. (1969); S. Rep. No. 91-1084, 91st Cong. 2nd Sess. (1970), reprinted in [1970] U.S. Code Cong. & Ad. News 5519; Conf. Rep. No. 91-1747, 91st Cong. 2nd Sess. (1970), reprinted in [1970] U.S. Code Cong. & Ad. News 5561.

<sup>22</sup>S. Rep. No. 91-1084, 91st Cong. 2nd Sess. (1970), reprinted in [1970] U.S. Code Cong. & Ad. News 5522.



to the dramatic growth in one-bank holding companies outlined above, it became clear that the *major banking institutions* in the United States were prepared to use this device to expand into many non-banking fields prohibited to them as banks by the banking laws. In addition, many *large conglomerates* decided to become one-bank holding companies by acquiring banks." (emphasis added)<sup>23</sup>

In the 1969 hearings before the House Banking Committee, Governor Robertson, testifying for the Board, explained the existing exemption for OBHCs:

"MR. ROBERTSON. May I attempt to answer this? It wasn't an oversight. We recommended that there be no loophole. The loophole was permitted because there were at that time a little over 100 small—and they were all small—holding companies which had been set up in small towns in order that the owners of that stock of the bank could get the benefit of the tax features which were involved when the dividend came from the bank into the holding company. The holding companies had other businesses from which it could get other nondividend income. So it could get the benefit of the tax features.

They contended these small individuals would be in a position to use those earnings to pay off the loan they made in order to buy the bank stock, and that otherwise they couldn't service the loan. The argument was if they weren't in a position to do this, then these small banks would be merely gobbled up by the big holding companies which could afford to come in and buy them. And this was undesirable, and on this basis the Congress decided, as I understand it, to exempt the one-bank holding companies. This

<sup>23</sup>115 Cong. Rec. 32893-94 (1969).

wasn't a serious problem and if it became a serious problem, Congress would deal with it."<sup>24</sup>

Thus, the real purpose of the 1970 amendments was to prevent large OBHCs from forming nationwide conglomerates and from securing undue concentration of national resources.<sup>25</sup>

In contrast, there is nothing in the history of the 1970 amendments to indicate that Congress was concerned with smaller OBHCs. In fact, Chairman Martin, testifying for the Board, suggested exemption of OBHCs having bank assets of less than \$30 million and nonbanking assets of less than \$10 million.<sup>26</sup>

A careful reading of the legislative history of the 1970 amendments indicates no support whatever for the Board's "guidelines" written or unwritten, used to deny OBHC formations.

#### E. Effect of 1970 Amendments on Section 1842(c) Standards.

The problem which now must be resolved is how to apply the standards in Section 1842(c) to an application for the formation of a OBHC that does not present anti-competitive problems. The Board answers this question in the following manner:

"... Congress could scarcely have intended that the Board would have no discretion to consider the bear-

<sup>24</sup>Testimony of Governor Robertson before the House Committee on Banking and Currency, Hearings on Bank Holding Company Act Amendments, 91st Cong. 1st Sess., p. 233 (1969).

<sup>25</sup>See Board Study, *The Bank Holding Company Movement to 1978*, *supra*, Section VIII.

<sup>26</sup>Hearing on a Bill to Amend the Bank Holding Co. Act before the House Committee on Banking and Currency, 91st Cong. 1st Sess., 201 (1969).



ing of the 'financial and managerial resources of the company \* \* \* and the bank[] concerned [on the] \* \* \* needs of the community to be served.' Not only the plain language of the statute but also its specific extension to single bank holding companies demonstrates the Court of Appeal's error." (Board's brief p. 23)

The Board's answer is not credible because it conveniently omits the last portion of Section 1842(c). This section in its entirety reads:

"In every case, the Board shall take into consideration the financial and managerial resources and future prospects of the company or companies and the banks concerned, and the convenience and needs of the community to be served." (emphasis added)

The phrase "financial and managerial resources" refers to "the banks concerned. . . ." The use of the plural, "banks", cannot be regarded as unintentional. The phrase apparently has its genesis in the 1966 amendments to Section 1828(c), the Bank Merger Act. The House Banking Committee explains the phrase in the following manner:

"First, it is intended to make it clear that the public interest referred to is specifically related to the convenience and needs of the community to be served. In other words, the banking factors which relate only to the *financial and managerial resources and future prospects of the existing and proposed institutions could never, in and of themselves, be used as the sole justification for an anticompetitive merger unless the failing company doctrine* (an integral part of the anti-trust law and not intended to be affected by the bill) *were involved.*" (emphasis added)<sup>27</sup>

<sup>27</sup>H. R. Rep. No. 1179, 89th Cong. 1st Sess., 11 (1965).

A year later, in the Second Session of the 89th Congress the report of the House Banking Committee was more specific:

"Your committee has taken this opportunity to revise the archaic and inappropriate phraseology by which existing law expresses the so-called banking factors as applied to bank mergers. It had its origins in the National Bank Act of 1863 and has become successively less appropriate as it was copied into the Federal Reserve Act in 1913, later into the Federal Deposit Insurance Act of 1933, and then finally again into that act in 1960. Its meaning in the present context is much better expressed as '*the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served.*' Of course, the expression of these factors in the statute would not preclude the banking agencies charged as they are with general supervisory responsibility, from considering in any particular case such other factors as they might deem relevant. *However, only the convenience and needs of the community to be served can be weighed against anticompetitive effects, with financial and managerial resources being considered only as they throw light on the capacity of the existing and proposed institutions to serve the community.*" (emphasis added)<sup>28</sup>

Section 1842(c) must be read in its entirety, and not separated and isolated in part as the Board attempts to do.

In short, "financial and managerial resources" are to be considered only in connection with anticompetitive ef-

<sup>28</sup>H. R. Rep. No. 1221, 89th Cong. 2nd Sess. (1966), reprinted in U.S. Code Cong. & Ad. News 1863.



fects and the capacity of the institutions involved to serve the community. This phrase is misused by the Board to support its "guidelines" in situations, as in the instant case, presenting no anticompetitive factors. Undoubtedly Congress had in mind that the bank supervisors and the FDIC would adequately assure bank soundness.

#### F. Summary of Legislative History.

There is no support in the legislative history that the Board, in its regulatory role under the BHC Act, has discretion to apply uniformly arbitrary guidelines in denying OBHC applications. In effect, the Board is attempting to do indirectly what it cannot do directly, for it has no regulatory authority over the operational aspects, including capital restructuring, of banks under the BHC. These powers reside in the primary bank supervisors and the FDIC.

The Board's discretion in approving or denying holding company status to an applicant must be exercised to effectuate the purpose of Congress in adopting and amending the BHC Act. The intent of Congress was to correct adverse results to the banking public arising from the concentration of financial resources and the acquisition of nonbanking businesses by BHCs.

*Amicus* submits that it is the clear purpose of the statute to implement an antitrust policy, and to keep banks out of unrelated businesses. Nothing in the statute or legislative history in instances like *First Lincolnwood* indicates that approval is conditioned upon the holding company being of such strength as to add to the existing strength of the bank. Indeed, this subject is simply not discussed in the legislative history, is not found in the language of

the statute, and has no basis external to the writings of the Board. Accordingly, *Amicus* submits that the decision below is correct.

## II.

### THE BOARD'S ARBITRARY GUIDELINES CREATE THE SO-CALLED "USOUND" FINANCIAL STRUCTURE OF OBHCs.

In this case, the Board relies heavily upon the words, "future prospects" and throughout its brief refers repeatedly to adverse effects of a transaction which *may* weaken the bank in the future or cause other abuses, all on the basis of conjecture and without evidence. For example, the Board's staff asserts in the instant case: "In our opinion this strain on bank's earnings to service this \$3.7 million debt, in itself, is sufficient to warrant denial of the application." The Board denied the application on this basis. (Board's brief p. 8, 9)

This "strain" is of the *Board's own making* because the Board's "guidelines" require the debt to be amortized over a period of 12 years. The same debt previously owed by individuals had no such limited amortization.

#### A. History of the Board's Arbitrary Guidelines.

A brief history of the Board's "guidelines" is enlightening. After adoption of the 1970 amendments, the Board adopted in-house rules which were later formalized. These original "guidelines" may be summarized as follows:

1. Whenever an offer is made to acquire shares of a bank, the offer must be extended to all shareholders of the same class on an equal basis.
2. The amount borrowed by the holding company to



purchased the voting shares of the bank shall not exceed either:

- (a) 50 percent of the purchase price of the shares of the bank or
  - (b) 50 per cent of the equity capital of the holding company.
3. The loan will be repaid within a reasonable period of time (not to exceed 10 years).
  4. The interest rate on the loan is comparable with other stock collateral loans by the lender to persons of comparable credit standing.
  5. The loan is not conditioned upon maintenance of a correspondent bank balance with the lender that exceeds the usual needs of the bank whose shares are being purchased.
  6. Interest on and amortization of the holding company's indebtedness will not exceed, in any year, 50 per cent of the holding company's proportionate share of the bank's anticipated net income (after taxes) for that year.<sup>29</sup>

After a flurry of complaints from the banking industry, the Board formulated revised guidelines on October 30, 1972.<sup>30</sup> These revised guidelines may be summarized as follows:

1. Unchanged.
2. Changed to increase the amount borrowed by the OBHC to purchase the voting shares of the bank to a limit of 75% of the purchase price.

<sup>29</sup>See Fed. Res. Press Release, July 5, 1972.  
<sup>30</sup>12 C.F.R. §265.2(f) (22).

3. Changed to increase the loan repayment period to a limit of 12 years.
4. Unchanged.
5. Unchanged.
6. Deleted.

These revised guidelines have been used by the District Banks to the present time. They have also been used by the Board whenever, as in the instant case, a District Bank refers a OBHC application to the Board for final disposition.

#### **B. Circuit Court Treatment of the Board's Arbitrary Guidelines.**

The first guideline was deleted after the decision in *Western Bancshares, Inc. v. Board of Governors*, 480 F. 2d 749 (10th Cir. 1973). The findings and reasoning used in this landmark case can be applied with equal force to the remaining guidelines. After carefully considering the legislative history of the 1970 amendments the Court concluded there was no legal authority for the first guideline, because it was "based entirely on [the Board's] administrative policy . . ." and that "neither administrative agencies nor courts may legislate." The Court found that "issues as to reasonableness or inequality of stock purchases must be decided upon the basis of the law of contracts, or such other principles of law as may be applied in a forum competent to adjudicate the issues between the parties thereto." Although the Court noted that the agency charged with enforcement is entitled to great deference by the courts, it held ". . . we are not bound thereby, and



particularly so where neither the Act nor the legislative history contains one word expressly permitting the administrative authority assumed." The Court also noted that "Congress had not seen fit to speak on the subject matter" and concluded that "we refuse to imply that administrative authority exists empowering the Board to regulate the offering price for bank stock acquired under the Bank Holding Company Act."<sup>31</sup>

In the instant case, a second Court of Appeals after carefully reviewing the legislative history of the Board's authority to act upon a OBHC application found that the Board lacked power to deny the OBHC application.

Thus, two Courts of Appeal have set aside denials by the Board where the basic reason was the arbitrary guidelines of the Board. In *Western Bancshares*, the guideline itself was found to be unlawful. In *Lincolnwood* the "strain on the bank's earnings", was caused by the Board's own "guideline" requiring retirement of the \$3.7 million debt in a 12-year period. Accordingly, most OBHC formation denials can be traced to the Board's own arbitrary guidelines, woodenly applied to almost every application. In contrast, a free loan market would permit a longer period of amortization, as existed prior to the guidelines in 1971, and no "strain on bank earnings" would then occur.

### C. The Board's Arbitrary Unwritten Guideline.

The Board also has an *unwritten* "guideline" which states that in every application for formation of a OBHC, it must be demonstrated that the OBHC will be a "source

<sup>31</sup>*Western Bancshares Inc. v. Board of Governors*, 480 F.2d 749, 751 (10th Cir. 1973).

of strength" to the subsidiary bank. This guideline was used in the instant case (546 F.2d 722, 723) and in many other denials of applications for OBHC formations (see *Amicus* App. p. A-9). The court below brushed aside this "guideline" as having no foundation in law.

The Board (Board's brief p. 31) refers to S. Rep. No. 95-323 as authority for its argument that Congress approves of the Board's actions in having adequately financed one-bank holding companies that would provide "a source of strength" to their subsidiary banks. This report, however, emphasizes the problem of bank holding companies which operate *nonbanking subsidiaries*:

"Bank holding companies and savings and loan holding companies have been permitted to engage in activities *outside the traditional fields of banking* and operating savings and loan associations. In some situations these activities have involved significant risks or losses to a point where the safety of subsidiary financial institutions have been threatened. Holding companies are supposed to be a source of strength to subsidiary financial institutions. Unfortunately, in too many instances holding companies have been a drain on the subsidiary financial institution, affecting the safety or soundness of such institutions.

Under the bill, whenever the Federal Reserve, in the case of a bank holding company, or the FHLBB, in the case of a savings and loan holding company, have reason to believe that the continuation by a holding company of the ownership or control of a *nonbank* or noninsured subsidiary constitutes a serious risk to the financial safety of a subsidiary bank or savings and loan association, as the case may be, the Federal Reserve or the FHLBB may order such holding company to *divest itself of the nonbank or*



*noninsured subsidiary*, or to terminate its activities.” (emphasis added)<sup>32</sup>

While Congress felt that BHCs should be a source of financial strength to their subsidiary banks in certain cases, the concern focused on the financial problems of *nonbank subsidiaries* of the BHC which could sap the strength of these banks. There is nothing in the history to suggest Congress was particularly concerned with the formation of a one-bank holding company involving merely a formalistic change in ownership (such as First Lincolnwood) or the transfer of a small bank, where *non-bank activities* posed no threat.

As in the instant case, almost all OBHC formations are for the purpose of tax savings in the servicing of the debt involved in the transfer of ownership of a bank. In the instant case the tax saving would amount to \$130 thousand in the first year. Tax benefits are essential and necessary in the transfer of a smaller bank from one independent owner to another. Without these tax benefits potential buyers of smaller banks would be discouraged from making the purchase due to the graduated personal income tax rate. Simply stated, if the purchase loan is made by a OBHC, there are more after-tax dollars available for repayment of the loan. This is demonstrated by the four tables appearing in *Amicus* App. p. A-5.

There is no valid reason why these tax benefits should not be available to purchasers of banks as they are to purchasers of any other kind of business. However, the Board takes a different view. As stated by the Court below, “the Board assumes the stance that the tax advantage

<sup>32</sup>S. Rep. No. 95-323, 95th Cong. 1st Sess., 11-12 (1977).

of bank holding company status is a reward which it may withhold until the applicant's financial status fulfills the Board's standard of desirability. We do not find this power or breadth of discretion of the statute.” (560 F.2d at 262)

The Board has used this “reward” to cause increases in capital of subsidiary banks. (Pet. for Writ, n.9) *Amicus* submits this is an unlawful usurpation of the responsibility of bank supervisors and the FDIC. There is no legal basis for this usurpation, in any law or legislative history. Furthermore, tax regulation is assigned to the Treasury Department.

### III.

#### THE BOARD'S RECORD INDICATES A BIAS AGAINST FORMATION OF OBHCs.

The Board's record of administration of the Act demonstrates a decided bias in favor of MBHCs and against formation of OBHCs. Notwithstanding the clear purpose of the BHC Act, the Board has distorted its purpose and converted it from a restraint law to a permit law. From 1956 through 1976, the Board approved 1,230 acquisitions by bank holding companies under Section 1842(a) (3) and during the same period denied only 110 such applications. This is a denial rate of only 8.2%. These figures are derived from the annual reports of the Board to Congress for these years. (*Amicus* App. p. A-20)

The following tables show that during the period 1970-1976 the Board approved 411 BHC formations and denied only 58. The figures in the following tables refer only to applications for the *formation* of OBHCs and MBHCs



during this 7 year period. The percentage of denials in both categories does not appear significant until the two are compared. The rate of denials of OBHC applications is 30.4% against an MBHC denial rate of only 4.63%.

TABLE 1  
ONE-BANK HOLDING COMPANY FORMATION SUMMARY  
(1970-1976)

Year	Total	Approvals	Denials	Denial of BHC Status to Banks with Less Than \$50 million in Assets	Denial Rate
1970	4	4	0	0	0%
1971	18	16	2	1	11%
1972	28	24	4	3	14.5%
1973	3	3	0	0	0%
1974	25	14	11	8	44%
1975	35	19	16	16	45.7%
1976	28	18	10	8	35.6%
Total	141	98	43	36	30.4%

Source: Federal Reserve Bulletins (1970-1976).

Table 2  
MULTI-BANK HOLDING COMPANY FORMATION SUMMARY  
(1970-1976)

Year	Total	Approvals	Denials	Denial Rate
1970	27	27	0	0%
1971	49	49	0	0%
1972	51	44	7	13.7%
1973	55	54	1	1.8%
1974	63	58	5	7.9%
1975	30	30	0	0%
1976	36	34	2	5.8%
Total	311	296	15	4.63%

Source: Federal Reserve Bulletins (1970-1976); Annual Reports of the Board of Governors of the Federal Reserve System to Congress (1970-1976).

These tables, however, do not tell the whole story. The Federal Reserve District Banks require informal conferences before a final application for a OBHC formation is submitted for action. In this informal procedure many such proposals are discouraged or turned away. These denials

are never recorded. The record shows that the Board looks with great favor upon the formation of MBHCs and discourages or denies the formation of OBHCs.

There are several apparent reasons for the Board's attitude. First, the Board's primary function is to establish monetary policy. It is obviously easier for the Board to obtain prompt response to shifts in its economic policies from large MBHCs. In these companies there is centralized management and a lead national bank. The subsidiary banks carry their correspondent balances with the lead bank. A holding company system operates like a funnel, swelling the deposits controlled by the lead bank which is always a member of the Federal Reserve System.

Secondly, it is not surprising that the Board favors large bank systems. It presides over one, consisting of 12 huge banks with 25 branches. The entire Federal Reserve System is manned by those who are a part of and believe in large bank systems, including the directors of the District Banks.

Finally, a recent House study shows that the District Bank Boards are dominated by representatives of large MBHCs and large industries who are dependent on large banks.<sup>33</sup>

In such a system, the record of the Board, demonstrating an attitude favoring expansion of large bank systems, is more understandable. While this attitude arguably suits the Board's primary function, such an attitude is inappropriate in administering the BHC Act. This is particularly true as it relates to small OBHCs.

The Board's attitude and internal policies not only are

<sup>33</sup>See Staff Rep. compiled for the House Banking Committee, *Federal Reserve Directors: A Study of Corporate and Banking Influence* (1976).



a radical departure from congressional intent to restrain BHC expansion, but also are in defiance of our long established national bank policy to encourage banking competition while restraining concentration of control of banking.

As succinctly stated by this Court in *United States v. Philadelphia National Bank*, 374 U.S. 321, 372 (1963):

"... [W]e note that if the businessman is denied credit because his banking alternatives have been eliminated by mergers, the whole edifice of an entrepreneurial system is threatened; if the cost of banking services and credit are allowed to become excessive by the absence of competitive pressures, virtually all costs, in our credit economy, will be affected; and unless competition is allowed to fulfill its role as an economic regulator in the banking industry, the result may well be even more governmental regulation. Subject to narrow qualifications, it is surely the case that competition is our fundamental national economic policy, offering as it does the only alternative to the cartelization of governmental regimentation of large portions of the economy."

While that case involved a merger, the acquisition of a bank by a multibank holding company is another means of eliminating an alternate source of bank credit and services. Congress viewed bank mergers and BHC acquisitions in the same light, as both are a threat to the maintenance of banking competition. This is why Congress adopted the same standards in both acts in 1966 to guide the federal banking agencies in both prior approval systems. (Section 1828(c)(5) on mergers; Section 1842(c) on acquisitions).

*Competition is the great regulator in banking, not the*

federal and state agencies. The regulatory agencies are concerned with soundness of every bank as a safe place for the deposit of the public's money, and to assure that banks adhere to laws and regulations. They should not, however, elevate their economic policies over our nation's fundamental policy of encouraging competition in banking.

#### IV.

#### REASONABLE LIMITS MUST BE PLACED ON THE BOARD'S AUTHORITY REGARDING FORMATION OF OBHCs.

At the heart of this case is the proper application of the standards set forth in Section 1842(c). These standards can properly be applied to a OBHC, for example, that presents an anticompetitive problem, either in banking or nonbanking activities. There are large OBHCs in some states which dominate their bank markets. Some are extremely active in acquiring or commencing *de novo* nonbanking activities. In such cases, as the legislative history shows, the standards in Section 1842(c) may properly be used to deny OBHC formations.

Also, there may be OBHCs, large and small, involving corrupt management. In such cases it would be proper to deny a OBHC formation.

However, the vast majority of applications for OBHC formations do not present any anticompetitive problems. They have good management and are able to service any debt involved if the free play of the market were allowed to dictate the terms and conditions of the loan. If the competitive loan market were allowed to operate, the availability and amount of the loan, rate of interest, debt retire-



ment period, and the debt-equity ratio would all become a matter of negotiation between the borrower and the lending bank.

If this were permitted, as it was for decades prior to 1971, there would be adequate safeguards in other laws. For example, the *lending* bank is subject to supervision and annual examination by the national or state supervisor. If any OBHC loan were found to be substandard by the supervisor, the lending bank could be made to call the loan or refinance it in some way. In addition, the FDIC has similar supervisory power. Also available is a cease and desist order or an order for the removal of the offending officers and directors under 12 U.S.C. §1818. The last resorts would be to cancel FDIC deposit insurance or revoke the bank's franchise. Moreover, as to the BHC itself, the 1974 amendment to Section 1818 gives the Board power to use cease and desist orders. Finally, there is a criminal statute concerning misapplication of bank funds (18 U.S.C. §656) which would permit the Justice Department to act where serious abuses occur.

The Board should give great weight to conclusions of the national and state bank supervisors and the FDIC whose primary duty is to assure bank soundness. It should not act as a superagency using unwarranted "guidelines" to overrule these primary supervisors, as in the instant case.

Remedies are available to deal with undesirable persons or unsound practices, and restrictions under the Board's arbitrary "guidelines" which shroud the loan market are not only undesirable, but find no support in any legislative history. Furthermore, the Board's policies and guidelines run counter to our deliberate national policy to preserve competition in banking.

When a OBHC seeks a loan from a bank, the need for competition at that level is just as important as competition at the bank-customer level. In fact, there is no difference between a OBHC loan secured by bank stock, and a commercial loan secured by corporate stock. For example, a businessman may seek a loan to purchase or build a plant or store. Our system affords him the opportunity to shop for his loan in the same manner a OBHC should be permitted to shop for a loan upon reasonable terms and conditions that only competition can provide.

Prior to 1971, it was not unusual for individual or OBHC bank purchase loans to be made on a one-year renewable note or a ten-year note with a "balloon" at the end, secured by the bank's controlling stock. In short, there was no specified amortization period. This gave the lending bank opportunity for periodic review and the right to refinance or call the loan or change the interest rate. Thus, the borrower was under compulsion to repay within a reasonable period which might extend from 20 to 30 years. This pattern is no different from other large capital loans made to businessmen.

The forces of competition, coupled with the right of bank supervisors, including the Board, to obtain cease and desist orders, provides adequate control.

There is no need for the Board's guidelines to be woodenly applied to all OBHC formation applications. These guidelines should be rescinded. This case provides the opportunity for this Court to declare that the Board's "guidelines" are unlawful, under the statute involved and the legislative history of the BHC Act.



V.

**CONCLUSION**

For the reasons stated, the decision of the Court below should be affirmed and the Board instructed as to the limits of its authority to deny applications for formation of OBHCs which present no anticompetitive problems.

Respectfully submitted,

HORACE R. HANSEN  
WAYNE P. DORDELL  
600 Degree of Honor Building  
St. Paul, Minnesota 55101  
*Attorneys for Amicus Curiae*

DATED: June 19, 1978.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a copy of the foregoing Brief and Appendix was furnished, on behalf of Amicus Curiae Independent Bankers Association of America, by air mail, postage prepaid, on June 19, 1978, to Wade H. McCree, Jr., Solicitor General, Washington, D. C. 20530, Attorney for Appellant, and to George B. Collins, One North LaSalle Street, Chicago, Illinois 60602, Attorney for Respondent.

Attorney for Amicus Curiae Independent Bankers Association of America  
HANSEN, DORDELL & BRADT  
600 Degree of Honor Bldg.  
St. Paul, Minnesota 55101

**APPENDIX**

OFFICE OF THE SOLICITOR GENERAL  
WASHINGTON, D.C. 20530

May 19, 1978

Horace R. Hansen, Esq.  
Hansen, Dordell & Bradt  
600 Degree of Honor Building  
Fourth & Cedar Streets  
Saint Paul, Minnesota 55101

Re: Board of Governors of the Federal Reserve System v. First Lincolnwood Corp. (October Term, 1977—No. 77-832)

Dear Mr. Hansen:

I hereby consent to your filing of a brief *amicus curiae* in the above-captioned case on behalf of the Independent Bankers Association of America in the Supreme Court.

Sincerely,

/s/ WADE H. McCREE, Jr.  
Solicitor General



A-2

COLLINS & AMOS  
Counsellors at Law  
One North LaSalle Street  
Chicago, Illinois 60602

May 12, 1978

Mr. Horace R. Hansen  
Hansen, Dordell & Bradt  
600 Degree of Honor Building  
Fourth & Cedar Streets  
St. Paul, Minnesota 55101

Re: Board of Governors v. First Lincolnwood Corp.,  
U.S. S. Ct., Oct. Term 1977, #77-832

Dear Mr. Hansen:

Thank you for your letter of May 9, 1978.

As counsel for First Lincolnwood Corporation in the above case, I consent to your request that you be allowed to file a brief amicus.

Respectfully yours,

/s/ GEORGE B. COLLINS

GBC/jh

MEMO TO: Independent Bankers Association of America

DATE: May 4, 1978

SUBJECT: Feasibility of Using Bank Holding Company  
for Financing Bank Acquisition

FROM: Anderson & Seiberlich, Certified Public Accountants

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The assumptions made in connection with the preparation of the attached exhibits were based on two banks who were approximately equal in size to the majority of the banks that are members of the Independent Bankers Association of America. The salaries and dividends paid by the bank were based upon estimated average figures for banks of this size and the insurance agency earnings were also based on an estimate of the approximate earnings of agencies related to this size of bank. Income taxes have been based on current rates and utilizing the assumption that all available surtax exemption would be used by the bank. The possibility of having the bank and the holding company file a consolidated return was considered, however, this approach was eliminated because of the possible problems that might arise in connection with the allocation of income taxes between the bank and the bank holding company. The four column schedule on each sheet provides the following information: Column No. 1—the first section of this column computes the total taxable income of the banker on an individual basis; the second section, or the cash flow projection, reflects the amount of cash available to the banker after payment of income taxes and debt principal. This, in a sense, would be the amount available for general living expenses. Column No. 2 reflects the same information for the individual, however since the dividends and insurance income is received by the corporation, his only income is his salary and the only deduction from his salary is the income tax. Column No. 3 shows the actual taxable income and cash flow of the bank holding company, while Column No. 4 is a total of columns 2 and 3 and reports the combined taxable in-



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come of the banker and the corporation when the one bank holding company approach is utilized and reflects the amount of cash flow available under this approach. The comparative results then is the difference between the cash available to the banker as an individual after payment of debt and federal income taxes and Column No. 4, which is a combination of the cash available to the one bank holding company and the banker when the corporate approach is used.

A-5

Exhibit I-A

## AFTER-TAX EFFECT OF BANK PURCHASE COMPARISON BETWEEN INDIVIDUAL AND ONE-BANK HOLDING COMPANY TWELVE-YEAR TERM LOAN

### ASSUMPTIONS

1. Bank stock purchase includes a \$450,000, 7-1/2% loan payable in twelve equal annual installments plus interest.
2. Size of bank - 6 million total assets.
3. All stock purchased except qualifying directors' shares.
4. Annual salary to banker \$40,000.
5. Dividends paid by bank of \$30,000 per year.
6. Insurance agency purchased with bank earns net annual commissions of \$25,000 after paying all expenses to bank.
7. Federal income taxes based on 1977 rates and separate returns for Holding Company and Bank. Possible state and local income taxes have not been included in computations.
8. Individual's other income equals his deductions and exemptions.

	Total Twelve-Year Debt Service Period			
	Banker as Individual	Utilizing One-Bank Holding Co. Individual	Corporation	Total
<b>TAXABLE INCOME</b>				
Salary	\$ 480,000	\$ 480,000	\$	\$ 480,000
Insurance agency net earnings	300,000		300,000	300,000
Dividends from bank - taxable	360,000			
Interest expense	(248,100)		(248,100)	(248,100)
Total Taxable Income	\$ 891,900	\$ 480,000	\$ 51,900	\$ 531,900
<b>CASH FLOW</b>				
Taxable income	\$ 891,900	\$ 480,000	\$ 51,900	\$ 531,900
Non-taxable bank dividends			360,000	360,000
Debt principal repayment	(450,000)		(450,000)	(450,000)
Federal income taxes	(361,188)	(145,680)	(24,912)	(170,592)
		(1)		(2)
Net Cash Flow	\$ 80,712	\$ 334,320	\$ (63,012)	\$ 271,308

### COMPARATIVE RESULTS

Available cash flow utilizing One-Bank Holding Company	\$ 271,308
Available cash flow without One-Bank Holding Company	80,712
Additional After-Tax Dollars Available Through Use of One-Bank Holding Company	\$ 190,596

- (1) 12-year period and no holding company does not provide adequate cash flow for living expenses.
- (2) 12-year period produces deficit and requires additional sources of financing.



AFTER TAX EFFECT OF BANK PURCHASE  
COMPARISON BETWEEN INDIVIDUAL AND ONE-BANK HOLDING COMPANY  
FIFTEEN-YEAR TERM LOAN

## ASSUMPTIONS

1. Bank stock purchase includes a \$450,000, 7-1/2% loan payable in fifteen equal annual installments plus interest.
2. Size of bank - 6 million total assets.
3. All stock purchased except qualifying directors' shares.
4. Annual salary to bank \$40,000.
5. Dividends paid by bank of \$30,000 per year.
6. Insurance agency purchased with bank earns net annual commissions of \$25,000 after paying all expenses to bank.
7. Federal income taxes based on 1977 rates and separate returns for Holding Company and Bank. Possible state and local income taxes have not been included in computations.
8. Individuals other income equals his deductions and exemptions.

	Total Fifteen-Year Debt Service Period			
	Banker as Individual	Utilizing One-Bank Holding Co.		Total
		Individual	Corporation	
<b>TAXABLE INCOME</b>				
Salary	\$ 600,000	\$ 600,000		\$ 600,000
Insurance agency net earnings	375,000		375,000	375,000
Dividends from bank - taxable	450,000			
Interest expense	(314,700)		(314,700)	(314,700)
<b>Total Taxable Income</b>	<b>\$1,110,300</b>	<b>\$ 600,000</b>	<b>\$ 60,300</b>	<b>\$ 660,300</b>
<b>CASH FLOW</b>				
Taxable income	\$1,110,300	\$ 600,000	\$ 60,300	\$ 660,300
Non-taxable bank dividends			450,000	450,000
Debt principal repayment	(450,000)		(450,000)	(450,000)
Federal income taxes	(448,965)	(218,520)	(28,944)	(247,464)
<b>Net Cash Flow</b>	<b>\$ 211,335</b>	<b>\$ 381,480</b>	<b>\$ 31,356</b>	<b>\$ 412,836</b>

## COMPARATIVE RESULTS

Available cash flow utilizing One-Bank Holding Company	\$ 412,836
Available cash flow without One-Bank Holding Company	211,335
<b>Additional After-Tax Dollars Available Through Use of One-Bank Holding Company</b>	<b>\$ 201,501</b>

(1) 15-year period is viable and requires no additional financing.

AFTER TAX EFFECT OF BANK PURCHASE  
COMPARISON BETWEEN INDIVIDUAL AND ONE-BANK HOLDING COMPANY  
TWELVE-YEAR TERM LOAN

## ASSUMPTIONS

1. Bank stock purchase includes a \$900,000, 7-1/2% loan payable in twelve equal annual installments plus interest.
2. Size of bank - 12 million total assets.
3. All stock purchased except qualifying directors' shares.
4. Annual salary to banker \$55,000.
5. Dividends paid by bank of \$60,000 per year.
6. Insurance agency purchased with bank earns net annual commissions of \$45,000 after paying all expenses to bank.
7. Federal income taxes based on 1977 rates and separate returns for Holding Company and Bank. Possible state and local income taxes have not been included in computations.
8. Individuals other income equals his deductions and exemptions.

	Total Twelve-Year Debt Service Period			
	Banker as Individual	Utilizing One-Bank Holding Co.		Total
		Individual	Corporation	
<b>TAXABLE INCOME</b>				
Salary	\$ 660,000	\$ 660,000		\$ 660,000
Insurance agency net earnings	540,000		540,000	540,000
Dividends from bank - taxable	720,000			
Interest expense	(496,200)		(496,200)	(496,200)
<b>Total Taxable Income</b>	<b>\$1,423,800</b>	<b>\$ 660,000</b>	<b>\$ 43,800</b>	<b>\$ 703,800</b>
<b>CASH FLOW</b>				
Taxable income	\$1,423,800	\$ 660,000	\$ 43,800	\$ 703,800
Non-taxable bank dividends			720,000	720,000
Debt principal repayment	(900,000)		(900,000)	(900,000)
Federal income taxes	(680,916)	(235,800)	(21,024)	(256,824)
<b>Net Cash Flow</b>	<b>\$ (157,116)</b>	<b>\$ 424,200</b>	<b>\$ (157,224)</b>	<b>\$ 266,976</b>

## COMPARATIVE RESULTS

Available cash flow utilizing One-Bank Holding Company	\$ 266,976
Available cash flow without One-Bank Holding Company	(157,116)
<b>Additional After-Tax Dollars Available Through Use of One-Bank Holding Company</b>	<b>\$ 424,092</b>

- (1) 12-year period with no holding company does not provide any cash flow for living expenses or enough for total debt retirement.
- (2) 12-year period produces deficit and requires additional sources of financing.



**AFTER TAX EFFECT OF BANK PURCHASE  
COMPARISON BETWEEN INDIVIDUAL AND ONE-BANK HOLDING COMPANY  
FIFTEEN-YEAR TERM LOAN**

Exhibit II-B

**ASSUMPTIONS**

1. Bank stock purchase includes a \$900,000, 7-1/2% loan payable in fifteen equal annual installments plus interest.
2. Size of bank - 12 million total assets.
3. All stock purchased except qualifying directors' shares.
4. Annual salary to banker \$55,000.
5. Dividends paid by bank of \$60,000 per year.
6. Insurance agency purchased with bank earns net annual commissions of \$45,000 after paying all expenses to bank.
7. Federal income taxes based on 1977 rates and separate returns for Holding Company and Bank. Possible state and local income taxes have not been included in computations.
8. Individuals other income equals his deductions and exemptions.

**Total Fifteen-Year Debt Service Period**

	Banker as Individual	Utilizing One-Bank Holding Co.	
		Individual	Corporation
<b>TAXABLE INCOME</b>			
Salary	\$ 825,000	\$ 825,000	\$ 825,000
Insurance agency net earnings	675,000		675,000
Dividends from bank - taxable	900,000		
Interest expense	(629,400)		(629,400)
<b>Total Taxable Income</b>	<b>\$1,770,600</b>	<b>\$ 825,000</b>	<b>\$ 45,600</b>
			<b>\$ 870,600</b>
<b>CASH FLOW</b>			
Taxable income	\$1,770,600	\$ 825,000	\$ 45,600
Non-taxable bank dividends			900,000
Debt principal repayment	(900,000)		(900,000)
Federal income taxes	(845,475)	(294,750)	(21,888)
		(1)	(2)
<b>Net Cash Flow</b>	<b>\$ 25,125</b>	<b>\$ 530,250</b>	<b>\$ 23,712</b>
			<b>\$ 553,962</b>

**COMPARATIVE RESULTS**

Available cash flow utilizing One-Bank Holding Company	\$ 553,962
Available cash flow without One-Bank Holding Company	25,125
<b>Additional After-Tax Dollars Available Through Use of One-Bank Holding Company</b>	<b>\$ 528,837</b>

- (1) 15-year period and no holding company does not provide adequate cash flow for living expenses.
- (2) 15-year period is viable and requires no additional financing.

**APPLICATIONS FOR THE FORMATION OF ONE BANK HOLDING COMPANY FOR THE YEARS 1970 TO 1977**

BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$				DENIAL BASED ON
			APPROVED	DENIED	Under 50	50-100	100+
The Orlando Bank & Trust Company	First Florida Bankcorporation	56 Fed. Res. Bull. 286-88 (March 1970)	X				
Orlando, Florida	Haines City, Florida						
Tropical Bank & Trust Sebring, Florida	Bank of Florida, Inc.	56 Fed. Res. Bull. 303-5 (March 1970)	X				
The Sutton State Bank Attica, Ohio	Mid-Ohio Bancshares, Inc.	56 Fed. Res. Bull. 305-7 (March 1970)		X			
Cumberland Bank & Trust Co. Grundy, Virginia	Dominion Bankshares Corp.	56 Fed. Res. Bull. 307-9 (March 1970)		X			
Massachusetts Bank & Trust Company Brockton, Mass.	First Massachusetts Financial Corporation	57 Fed. Res. Bull. 337-38 (April 1971)	X				
Toronto Dominion Bank of California	The Toronto-Dominion Bank	57 Fed. Res. Bull. 534 (June 1971)	X				
San Francisco, Calif.	Toronto, Ontario, Canada						
New Jersey NB Trenton, New Jersey	NJN Bancorporation	57 Fed. Res. Bull. 535 (June 1971)	X				
Industrial State Bank & Trust Co. Kalamazoo, Michigan	Great Lakes Holding Co.	57 Fed. Res. Bull. 545 (June 1971)	X				
West Bank & Trust Green Bay, Wisc.	United Bankshares, Inc.	57 Fed. Res. Bull. 619-20 (July 1971)	X				
Continental Bank Phoenix, Arizona	Continental Bancor., Inc.	57 Fed. Res. Bull. 676 (Aug. 1971)	X				
First Security Bank of Glendive, Montana	First Seabanco, Inc.	57 Fed. Res. Bull. 687-88 (Aug. 1971)		X			X
Liberty State Bank & Trust Hamtramck, Michigan	United Midwest Equity, Inc.	57 Fed. Res. Bull. 690-91 (Aug. 1971)	X				
The Hooksett Bank Hooksett, New Hampshire	The Suncook Bank	57 Fed. Res. Bull. 694-95 (Aug. 1971)	X				
First Bank & Trust Company of South Bend, Indiana	FBI Corp.	57 Fed. Res. Bull. 748-50 (Sept. 1971)	X				
Northern Michigan NB Escanaba, Michigan	Northern Michigan Corp.	57 Fed. Res. Bull. 752-53 (Sept. 1971)	X				
Peoples Bank of Bloomington, Ill.	Peoples Mid-Illinois Corporation	57 Fed. Res. Bull. 840-41 (Oct. 1971)	X				
Hilltop National Bank Casper, Wyoming	Midland Investment Corp.	57 Fed. Res. Bull. 842-43 (Oct. 1971)	X				



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BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$			DENIAL BASED ON		
			Under 50	50-100	100+	Competitiveness	Mgrial. Res.	Finan- cial Res. *
Linwood State Bank	American Bancorporation, Inc.	57 Fed. Res. Bull. 1003-4 (Dec. 1971)	X					
Kansas City, Missouri	Kansas City, Mo. Inc.	847-48 (Oct. 1971)						
The Security NB and Trust Company of Duncan	Security Corporation	57 Fed. Res. Bull. 947-48 (Nov. 1971)	X					
Duncan, Oklahoma								
Bank of North Lake	The Grand Banks Corp.	57 Fed. Res. Bull. 1003-4 (Dec. 1971)	X					
North Lake, Wisconsin	Milwaukee, Wisconsin	57 Fed. Res. Bull. 1024-25 (Dec. 1971)						
Security Trust & Savings Bank	STS Corporation	1024-25 (Dec. 1971)	X					
Billings, Montana	Billings, Montana							
Iowa Trust & Savings Bank	Associated Bank Corp.	57 Fed. Res. Bull. 1036-37 (Dec. 1971)	X					
Estherville, Iowa	Des Moines, Iowa							
The First Pacific Bank of Chicago	The Dai-ichi Kangyo Bank, Ltd.	58 Fed. Res. Bull. 49-50 (Jan. 1972)	X					
Chicago, Illinois	Tokyo, Japan							
The Mitsubishi Bank of California	The Mitsubishi Bank, Ltd.	58 Fed. Res. Bull. 50-51 (Jan. 1972)	X					
Los Angeles, Calif.	Tokyo, Japan							
The Sanwa Bank of California	The Sanwa Bank, Ltd.	58 Fed. Res. Bull. 51-3 (Jan. 1972)	X					
San Francisco, Calif.	Osaka, Japan							
Northern Connecticut National Bank	Connecticut Bancshares Corp.	58 Fed. Res. Bull. 66-7 (Jan. 1972)	X					
Windsor Locks, Conn.	New York, New York							
The Citizens NB of Torrington	North Platte Corp.	58 Fed. Res. Bull. 161 (Feb. 1972)	X					
Torrington, Wyoming	Torrington, Wyoming							
Northbrook Trust & Savings Bank	Firstbrook Corp.	58 Fed. Res. Bull. 162-4 (Feb. 1972)	X					
Northbrook, Illinois	Chicago, Illinois							
Carlton National Bank	Carlton Agency, Inc.	58 Fed. Res. Bull. 168-69 (Feb. 1972)	X					
Carlton, Minnesota	Carlton, Minnesota							
State Bank of Clearing	Clearing Bancorporation, Inc.	58 Fed. Res. Bull. 292 (March 1972)	X					
Chicago, Illinois	Chicago, Ill.							
Commerce Union Bank	Tennessee Valley Bancorp.	58 Fed. Res. Bull. 303 (March 1972)	X					
Nashville, Tennessee	Nashville, Tennessee							
French Bank of Calif.	Banque Nationale de Paris	58 Fed. Res. Bull. 311-13 (March 1972)	X					
San Francisco, Calif.	Paris, France							
The Island Trust Co.	Newport Savings & Loan	58 Fed. Res. Bull. 313-15 (March 1972)	X					
Newport, Rhode Island	Newport Association							
Bank of Belleville	Newport, Rhode Island	58 Fed. Res. Bull. 411-12 (April, 1972)	X					
Belleville, Illinois	Belleville Bancshares, Inc.							

5 (a) (2)

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BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$			DENIAL BASED ON		
			Under 50	50-100	100+	Competitiveness	Mgrial. Res.	Finan- cial Res. *
First National Bank of Pinedale	First National Bank Holding Co., Inc.	58 Fed. Res. Bull. 473-74 (May 1972)	X					
Pinedale, Wyoming	Pinedale, Wyoming							
Hume Banking Company	Hume Bancshares, Inc.	58 Fed. Res. Bull. 488 (May 1972)	X					
Hume, Missouri	Hume, Missouri							
Peoples Bank of Port Huron	Midland Mortgage Corp. and Port Huron Financial	58 Fed. Res. Bull. 593-95 (June 1972)	X					
Port Huron, Michigan	Detroit, Michigan Co.							
Kewanee NB	Kewanee Investing Co.	58 Fed. Res. Bull. 665 (July 1972)	X					
Kewanee, Illinois	Kewanee, Illinois							
Carlton NB	Carlton Agency, Inc.	58 Fed. Res. Bull. 672-73 (July 1972)	X					
Carlton, Minnesota	Carlton, Minnesota							
The Cheyenne County NB	Cheyenne County Investment Co., Inc.	58 Fed. Res. Bull. 722 (Aug. 1972)	X					
St. Francis, Kansas	St. Francis, Kansas							
Nebraska State Bank	Y. B. Corporation	58 Fed. Res. Bull. 732-33 (Aug. 1972)	X					
South Sioux City, Neb.	South Sioux City, Neb.							
Bank of Cody	Cody Agency, Inc.	58 Fed. Res. Bull. 736-37 (Aug. 1972)	X					
Cody, Nebraska	Lincoln, Nebraska							
Western State Bank	Western Kansas Investment Corp., Inc.	58 Fed. Res. Bull. 737-38 (Aug. 1972)	X					
Winona, Kansas	Winona, Kansas							
The North Shore NB of Chicago	North Shore Capital Corp.	58 Fed. Res. Bull. 809-11 (Sept. 1972)	X					
Chicago, Illinois	Chicago, Illinois							
Bank of Brady	Capital Management, Inc.	58 Fed. Res. Bull. 842-43 (Sept. 1972)	X					
Brady, Nebraska	Aurora, Nebraska							
North Valley SB	Citizens Investment Com-	58 Fed. Res. Bull. 843 (Sept. 1972)	X					
Thornton, Colorado	Thornton, Colorado pany							
Wichita SB	Graham-Michaelis Financial Corp.	58 Fed. Res. Bull. 920 (Oct. 1972)	X					
Wichita, Kansas	Wichita, Kansas							
Bancodi Roma	Banco Di Roma S.P.A.	58 Fed. Res. Bull. 930-31 (Oct. 1972)	X					
Chicago, Illinois	Rome, Italy							
Rocky Mountain Bank and Trust Co.	L&L Holding Company	58 Fed. Res. Bull. 932-33 (Oct. 1972)	X					
Fort Collins, Colorado	Fort Collins, Colorado							
Ranchers Bank	American Bancorporation	58 Fed. Res. Bull. 1026-27 (Dec. 1972)	X					
Quartz Hill, Calif.	Los Angeles, California							
American NB and Co. of Chicago	Walter Heller International Corp.	59 Fed. Res. Bull. 463-68 (June 1973)	X					
Chicago, Illinois	Chicago, Illinois							
Fremont County Savings Bank	Southwest Company	59 Fed. Res. Bull. 599-600 (Aug. 1973)	X					
Sidney, Iowa	Sidney, Iowa							

5 (a) (3)



BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$			DENIAL BASED ON		
			Under 50	50-100	100+	Approved	Denied	Finan- cial Res. *
Union Bank	Union Bancorp, Inc.	59 Fed. Res. Bull.				X		
Los Angeles, Calif.	Los Angeles, Calif.							
The Chester NB	Cedar Holdings Limited,	60 Fed. Res. Bull.		X		X		
Chester, New York	Bankers	37-9 (Jan. 1974)						
	London, England							X
Big Horn County SB	BHCO, Inc.	60 Fed. Res. Bull.		X				
Hardin, Montana	Hardin, Montana	123-24 (Feb. 1974)						
First Western Bank and Lloyds Bank Limited	First Western Bank and Lloyds Bank Limited	60 Fed. Res. Bull.				X		
Trust Company	Lloyds First Western Corp.	125-26 (Feb. 1974)						
Los Angeles, Calif.	London, England							
Northbrook Trust and	Norbank, Inc.	60 Fed. Res. Bull.		X				X
Savings Bank	Chicago, Illinois	127-28 (Feb. 1974)						
Northbrook, Illinois								
The Farmers State Bank	Lindsborg Bancshares, Inc.	60 Fed. Res. Bull.		X				
Lindsborg, Kansas	Lindsborg, Kansas	147-48 (Feb. 1974)						
Peoples State Bank	Peoples State Bankshares, Inc.	60 Fed. Res. Bull.		X				
Rossville, Kansas	Rossville, Kansas	Inc. 286-87 (April 1974)						
Exchange State Bank	The Adair Corporation	60 Fed. Res. Bull.		X				X
Adair, Iowa	Adair, Iowa	309-10 (April 1974)						
The FNB in Aurora	Aurora First National Co.	60 Fed. Res. Bull.		X				X
Aurora, Nebraska	Aurora, Nebraska	362-63 (May 1974)						
Concordia Bank	Concordia Banc-Management, Inc.	60 Fed. Res. Bull.		X				
Concordia, Missouri	Kansas City, Mo.	Inc. 363-64 (May 1974)						
City NB of Hastings	Hastings City National Co.	60 Fed. Res. Bull.		X				
Hastings, Nebraska	Lincoln, Nebraska	364-65 (May 1974)						
West Fargo SB	First Dakota Bancorpora-	60 Fed. Res. Bull.		X				
West Fargo, N. Dakota	tion, Inc.	590-91 (Aug. 1974)						
	Fargo, North Dakota							
The Bank of Bronson	Bronson Agency, Inc.	60 Fed. Res. Bull.		X				
Bronson, Kansas	Bronson, Kansas	666-67 (Sept. 1974)						
Capital City SB	Central States Bancor,	60 Fed. Res. Bull.		X				X
Des Moines, Iowa	Des Moines, Iowa	Inc. 667-69 (Sept. 1974)						
The Merchants NB of	Southland Bancorporation	60 Fed. Res. Bull.		X				
Mobile	Mobile, Alabama	669-70 (Sept. 1974)						
Mobile, Alabama								
Bank of Drummond	Drummond Bancshares, Inc.	60 Fed. Res. Bull.		X				
Drummond, Oklahoma	Drummond, Oklahoma	728-29 (Oct. 1974)						
Bank of Locust Grove	Locust Grove Bancshares, Inc.	60 Fed. Res. Bull.		X				
Locust Grove, Oklahoma		729-31 (Oct. 1974)						
Water Tower Trust &	Locust Grove, Oklahoma							
Savings Bank	Water Tower Financial	60 Fed. Res. Bull.		X				X
Chicago, Illinois	Group, Inc.	731-32 (Oct. 1974)						
The FNB of Rantoul	Chicago, Illinois							
Rantoul, Illinois	First Rantoul Corp.	60 Fed. Res. Bull.		X				
	Urbana, Illinois	773-74 (Nov. 1974)						

5 (a) (4)

BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$			DENIAL BASED ON		
			Under 50	50-100	100+	Approved	Denied	Finan- cial Res. *
Citizens State Bank	Hardin Bancorp	60 Fed. Res. Bull.						
Iowa Falls, Iowa	Iowa Falls, Iowa	774-75 (Nov. 1974)						
The First State Bank	Neosho Bancshares, Inc.	60 Fed. Res. Bull.		X				
Thayer, Kansas	Thayer, Kansas	775-76 (Nov. 1974)						
The Ogle County NB	Oregon Corporation	60 Fed. Res. Bull.		X				X
of Oregon	Oregon, Illinois	776-77 (Nov. 1974)						
Tri-State Bank of EastTri-State Bancorporation, Inc.	60 Fed. Res. Bull.							
Dubuque	Inc.	777-78 (Nov. 1974)						
East Dubuque, Illinois	East Dubuque, Illinois							
Farmers SB of Mountain	Farmers State Corporation	60 Fed. Res. Bull.						
Lake	Mountain Lake, Minnesota	787-88 (Nov. 1974)						
Mountain Lake, Minn.								
Farmers SB of Calhan	Pieper Bancorp, Inc.	60 Fed. Res. Bull.						
Calhan, Colorado	Calhan, Colorado	788-90 (Nov. 1974)						
Commonwealth NB of	Commonwealth Bancshares, Inc.	60 Fed. Res. Bull.						
Dallas	Inc.	864-65 (Dec. 1974)						
Bank of Canton	Canton Bancorporation	61 Fed. Res. Bull.						
Canton, Oklahoma	Canton, Oklahoma	345 (Jan. 1975)						
SB of St. Anthony	Pentagon Bankshares, Inc.	61 Fed. Res. Bull.						
Village	Minneapolis, Minnesota	35-6 (Jan. 1975)						
St. Anthony Village, Mn.								
Peoples Savings Bank	Peoples Bancorporation	61 Fed. Res. Bull.						
Elma, Iowa	Hampton, Iowa	36-7 (Jan. 1975)						
The Farmers and Mer-	Dexter Banking Co.	61 Fed. Res. Bull.						
chants SB of Dexter	Dexter, Kansas	103-4 (Feb. 1975)						
Dexter, Kansas								
Firstbank of Marietta	Firstbank Holding Co.	61 Fed. Res. Bull.						
Marietta, Oklahoma	Marietta, Oklahoma	104-6 (Feb. 1975)						
The NB of Commerce	NBC Corporation	61 Fed. Res. Bull.						
Altus, Oklahoma	Altus, Oklahoma	106-7 (Feb. 1975)						
Bank of Naperville	First Ogden Corporation	61 Fed. Res. Bull.						
Naperville, Illinois	Naperville, Illinois	172-74 (March 1975)						
Home State Bank	Erie Bankshares, Inc.	61 Fed. Res. Bull.						
Erie, Kansas	Erie, Kansas	246-47 (April 1975)						
Banco Mercantil of	The Bank of Nova Scotia	61 Fed. Res. Bull.						
Puerto Rico, Inc.	Toronto, Ontario	309-10 (May 1975)						
San Juan, Puerto Rico								
The Goose River Bank	Goose River Holding Co.	61 Fed. Res. Bull.						
Mayville, North Dakota	Mayville, N. Dakota	310-11 (May 1975)						
Dexter National Bank	Midwest Bancshares, Inc.	61 Fed. Res. Bull.						
Dexter, Missouri	Poplar Bluffs, Missouri	311-12 (May 1975)						



BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$				DENIAL BASED ON	
			Under 50	50-100	100+	Competitiveness	Mgrial. Res.	Finan- cial Res. *
York State Bank	York State Company	61 Fed. Res. Bull.	X					
York, Nebraska	York, Nebraska	312-13 (May 1975)						
The Beatrice NB and Trust Company	Beatrice National Corp.	61 Fed. Res. Bull.	X					
Beatrice, Nebraska	Beatrice, Nebraska	376 (June 1975)						
The FNB of Gladstone	International Bancshares	61 Fed. Res. Bull.	X					
Gladstone, Missouri	Gladstone, Mo. Inc.	376-77 (June 1975)						
Stockyards Bank	SVB Corporation	61 Fed. Res. Bull.	X					
Oklahoma City, Okla.	Oklahoma City, Okla.	378 (June 1975)						
The FNB of Gorman	Cross Timber Bancshares	61 Fed. Res. Bull.	X					
Gorman, Texas	Gorman, Texas Inc.	441-43 (July, 1975)						
Farmers SB of Mountain Lake	Farmers State Corp.	61 Fed. Res. Bull.	X					
Mountain Lake, Minn.	Mountain Lake, Minn.	451-53 (July 1975)						
Forest Park NB	Forest Park National Corp.	61 Fed. Res. Bull.	X					
Forest Park, Illinois	Forest Park, Illinois	517-18 (Aug. 1975)						
Scribner Bank	Scribner Bancshares, Inc.	61 Fed. Res. Bull.	X					
Scribner, Nebraska	Scribner, Nebraska	518-19 (Aug. 1975)						
Farmers State Bank	Winner Bancshares, Inc.	61 Fed. Res. Bull.	X					
Winner, South Dakota	Winner, South Dakota	519-20 (Aug. 1975)						
Haxtun Community Bank	Community Insurance Agency	61 Fed. Res. Bull.	X					
Haxtun, Colorado	Haxtun, Colorado Inc.	588-89 (Sept. 1975)						
First Security Bank	First Security Corp.	61 Fed. Res. Bull.	X					
Sutherland, Nebraska	Sutherland, Nebraska	589-90 (Sept. 1975)						
First Security NB and Trust Company of Lexington	First Security Corp. of Kentucky	61 Fed. Res. Bull.	X					
Lexington, Kentucky	Lexington, Kentucky	590-91 (Sept. 1975)						
The FNB of New Richmond	One Corporation	61 Fed. Res. Bull.	X					
New Richmond, Wisc.	New Richmond, Wisconsin	671-72 (Oct. 1975)						
The Downs NB	Downs Bancshares, Inc.	61 Fed. Res. Bull.	X					
Downs, Kansas	Downs, Kansas	673-75 (Oct. 1975)						
Industrial SB	Industrial Bancshares, Inc.	61 Fed. Res. Bull.	X					
Kansas City, Kansas	Kansas City, Kansas	675-76 (Oct. 1975)						
The Citizens NB of Charles City	Citizens Bancorporation	61 Fed. Res. Bull.	X					
Charles City, Iowa	Charles City, Iowa	805-6 (Nov. 1975)						
Citizens SB	Citizens Bancorp.	61 Fed. Res. Bull.	X					
Maud, Oklahoma	Maud, Oklahoma	806-7 (Nov. 1975)						
Commercial NB and Trust Co.	Commercial Bancshares, Inc.	61 Fed. Res. Bull.	X					
Grand Island, Nebraska	Grand Island, Nebraska	807-8 (Nov. 1975)						

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BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$				DENIAL BASED ON	
			Under 50	50-100	100+	Competitiveness	Mgrial. Res.	Finan- cial Res. *
1st Bank & Trust	Southeastern Bancshares, Inc.	61 Fed. Res. Bull.	X					
Broken Bow, Oklahoma	Broken Bow, Oklahoma	808-10 (Nov. 1975)						
The Harlan National Bank	Harlan National Company	61 Fed. Res. Bull.	X					
Harlan, Iowa	Harlan, Iowa	817-18 (Nov. 1975)						
First State Bank of Buffalo	First Buffalo Holding Co.	61 Fed. Res. Bull.	X					
Buffalo, North Dakota	Buffalo, North Dakota	882 (Dec. 1975)						
Southwestern Bank & Trust Company	SWB Corporation	61 Fed. Res. Bull.	X					
Oklahoma City, Okla.	Oklahoma City, Oklahoma	883 (Dec. 1975)						
FNB of Rochester	Profile Bancshares, Inc.	61 Fed. Res. Bull.	X					
Rochester, New Hamp.	Rochester, New Hampshire	901-3 (Dec. 1975)						
FNB of Wayne	First National Agency, Inc.	61 Fed. Res. Bull.	X					
Wayne, Nebraska	Wayne, Nebraska	900-1 (Dec. 1975)						



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BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$				DENIAL BASED ON	
			Under 50	50-100	100+	Competitiveness	Mgrial. Res.	Finan- cial Res. *
Farmers State Bank	Allen Bancshares, Inc.	62 Fed. Res. Bull. 48-49 (Jan. 1976)	X	X				X
Allen, Okla.	Allen, Okla.			X				
Citizens Valley Bank	Citizens Bancorp	62 Fed. Res. Bull. 49-50 (Jan. 1976)	X					
Albany, Ore.	Albany, Ore.							
Penn Square Bank	First Penn Corp.	62 Fed. Res. Bull. 50-51 (Jan. 1976)	X					
N. A. Okla City, Okla.								
Bank of Gallatin	Gallatin Bancshares, Inc.	62 Fed. Res. Bull. 51-52 (Jan. 1976)	X					
Gallatin, Tenn.	Gallatin, Tenn.			X				X
FNB of Lincolnwood	First Lincolnwood Corp.	62 Fed. Res. Bull. 153-54 (Feb. 1976)	X					
Lincolnwood, Ill.	Lincolnwood, Ill.							
State NB of Maryland	Capital First Corp.	62 Fed. Res. Bull. 252-53 (Mar. 1976)	X					
Rockville, Maryland	Philadelphia, Penn.							
Northwest SB	Mountain Financial	62 Fed. Res. Bull. 254-55 (Mar. 1976)	X					
Arvada, Colorado	Services, Inc.							
Denver, Colo.								
Town North NB	CU Bank Shares, Inc.	62 Fed. Res. Bull. 364-65 (April, 1976)	X					
Farmers Branch, Tex.	Dallas, Texas							
The FNB of Pine City	P.B.C., Inc.	62 Fed. Res. Bull. 365-66 (April 1976)	X					
Pine City, Mn.	Pine City, Mn.							
The Exchange Bank	Exchange Bancshares, Inc.	62 Fed. Res. Bull. 447-48 (May 1976)	X					
Skiatook, Okla.	Skiatook, Okla.							
The Pierre NB	South Dakota Bancshares, Inc.	62 Fed. Res. Bull. 448-49 (May 1976)	X					
Pierre, S. Dakota	Pierre, S. Dak.							
The FNB of Starbuck	Starbuck Bancshares, Inc.	62 Fed. Res. Bull. 450-52 (May, 1976)	X					
Starbuck, Mn.	Starbuck, Mn.							
SB of Hawley	Bancshares of Hawley, Inc.	62 Fed. Res. Bull. 610-11 (July 1976)	X					
Hawley, Mn.	Hawley, Mn.							
Citizens SB of El Dorado	El Dorado Bancshares, Inc.	62 Fed. Res. Bull. 611-12 (July 1976)	X					
El Dorado, Kansas	Prairie Village, Kansas							
Security NB of New Jersey	Fiduciary Investment Co. of New Jersey	62 Fed. Res. Bull. 612-14 (July 1976)	X					
Newark, New Jersey	Newark, New Jersey							
FNB of Puerto Rico	Banco de Santander, S.A.	62 Fed. Res. Bull. 690-91 (Aug. 1976)	X					
Hato Rey, Puerto Rico	Satander, Spain							
Citizens NB of Greater St. Louis	CN Banc Holding Corp.	62 Fed. Res. Bull. 691-92 (Aug. 1976)	X					
Maplewood, Missouri	Maplewood, Missouri							
Columbia NB of Cgo. Chicago, Illinois	Columbia Holding Corp. Chicago, Illinois	62 Fed. Res. Bull. 692-94 (Aug. 1976)	X					

\*denotes language "source of strength" used as basis for denial

5 (a) (8)

A-17

BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$				DENIAL BASED ON	
			Under 50	50-100	100+	Competitiveness	Mgrial. Res.	Finan- cial Res. *
First Westroads Bank, Inc.	United Bancshares of Nebraska, Inc.	62 Fed. Res. Bull. 694 (Aug. 1976)	X					
Omaha, Nebraska	Lincoln, Nebraska							
Citibank and Trust Co. of Lincoln	Citi Bancorp.	62 Fed. Res. Bull.	X					
Lincoln, Nebraska	Lincoln, Nebraska							
The Alexandria Bank Company	Cubanc Corp. Columbus, Ohio	9 Fed. Res. Bull. 792-93 (Sept. 1976)	X					
Alexandria, Ohio								
The FNB of International Falls	International Bancorporation, St. Paul, Mn.	9 Fed. Res. Bull. 793 (Sept. 1976)	X					
International Falls, Mn.								
The Farmers NB of Webster City	Agri-Bank Corp. Webster City, Iowa	10 Fed. Res. Bull. 852-53 (Oct. 1976)	X					
Webster City, Iowa								
FNB in Wewoka	First Wewoka Bancorporation, Inc.	10 Fed. Res. Bull. 853-54 (Oct. 1976)	X					
Wewoka, Oklahoma	Wewoka, Oklahoma							
Lisco SB	Lisco State Company	10 Fed. Res. Bull. 859-60 (Oct. 1976)	X					
Lisco, Nebraska	Lisco, Nebraska							
Bank of Clarendon Hills	Charter Clarendon Bancorporation, Inc.	11 Fed. Res. Bull. 949-50 (Nov. 1976)	X					
Clarendon Hills, Ill.	Northfield, Ill.							
The Union Bank	Union Holding Company	11 Fed. Res. Bull. 951-52 (Nov. 1976)	X					
Halliday, N. Dak.	Halliday, N. Dakota							
The Citizens Bank of Utica	Utica Agency, Inc. Utica, Kansas	11 Fed. Res. Bull. 953-54 (Nov. 1976)	X					
Utica, Kansas								
Bank of the Commonwealth	The First Arabian Corp. Paris, France	63 Fed. Res. Bull. 66-7 (Jan. 1977)	X					
Detroit, Michigan								
The FNB of Gaylord	Gaylord Bancshares, Inc.	63 Fed. Res. Bull.	X					
Gaylord, Kansas	Gaylord, Kansas							
Scribner Bank	Scribner Bancshares, Inc.	63 Fed. Res. Bull. 76-7 (Jan. 1977)	X					
Scribner, Nebraska	Scribner, Nebraska							
American NB of Midwest City	American National Bancshares, Inc.	63 Fed. Res. Bull. 149-50 (Feb. 1977)	X					
Midwest City, Okla.	Midwest City, Okla							
Daiwa Bank Trust Co. New York, New York	The Daiwa Bank, Ltd. Osaka, Japan	63 Fed. Res. Bull. 151-52 (Feb. 1977)	X					
Lakeview Trust & Savings Bank	Lakeview Bancorp, Inc. Northbrook, Illinois	63 Fed. Res. Bull. 154-56 (Feb. 1977)	X					
Chicago, Illinois								

5 (a) (9)



BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$				DENIAL BASED ON	
			Under 50	50-100	100+	Competitiveness	Marital.	Finan- cial Res. *
Bank of Ozark	Banstock One, Inc.	63 Fed. Res. Bull.	X	X				X
Ozark, Arkansas		267-68 (Mar. 1977)						
Bank of the Southwest	Great Southwest Bank	63 Fed. Res. Bull.	X	X				X
Dodge City, Kansas	Corp., Inc.	274-75 (Mar. 1977)						
Audubon State Bank	Dodge City, Kansas							
Audubon, Iowa	Audubon Investment Co.	63 Fed. Res. Bull.	X					
Heritage FNB of Lockport	Audubon, Iowa	401-02 (April 1977)		X				
Lockport, Illinois	Old Canal Bankshares, Inc.	63 Fed. Res. Bull.						
The First National Bank of Sibley	Lockport, Illinois	407-08 (April 1977)	X	X			X	X
Sibley, Iowa	Sibley Bancorporation	63 Fed. Res. Bull.						
Yoakum County SB	Sibley, Iowa	499-50 (May 1977)						
Denver City, Texas	Yoakum County Bankshares	63 Fed. Res. Bull.	X					
Farmers Savings Bank	Inc.	509-10 (May 1977)						
Fremont, Iowa	Denver City, Texas							
Stock Yards Bank	Mahaska Investment Co.	63 Fed. Res. Bull.	X	X			X	
Oklahoma City, Okla.	Oskaloosa, Iowa	579-81 (June 1977)						
European-American Bank & Trust Co.	SVB Corporation	63 Fed. Res. Bull.	X					
New York, New York	Oklahoma City, Okla.	587-90 (June 1977)						
Banco de Bogota	European-American Bancorp	63 Fed. Res. Bull.						
Trust Company	New York, New York	595-602 (June 1977)						
New York, New York								
Granite Falls Bank	Banco de Bogota and	63 Fed. Res. Bull.	X					
Granite Falls, Mn.	Banbogota, Inc.	671-72 (July 1977)						
First National Bank in Anoka	Bogota, Columbia							
Anoka, Mn.	Granite Holding Corp.	63 Fed. Res. Bull.	X	X			X	
Bank of Iowa	Granite Falls, Mn.	677-78 (July 1977)						
Ionla, Missouri	Chalfen-Holiday, Inc.	63 Fed. Res. Bull.	X					
Northwest Bank	Minneapolis, Mn.	691-92 (July 1977)						
Oklahoma City, Okla.	Industrial Loan & In-	63 Fed. Res. Bull.	X					
Banco Central y Economias	vestment Company	693-94 (July 1977)						
Hato Rey, Puerto Rico	Sedalia, Missouri							
The Gypsum Valley National Bank	Midland Capital Co.	63 Fed. Res. Bull.	X					
Gypsum, Kansas	Oklahoma City, Okla.	694-96 (July 1977)						
	Banco Central, S.A.	63 Fed. Res. Bull.	X					
	Madrid, Spain	741-42 (Aug. 1977)						
	Berbank, Inc.	63 Fed. Res. Bull.	X					
	Salina, Kansas	742-43 (Aug. 1977)						

5 (a) (10)

BANK NAME	HOLDING CO.	CITE	ASSETS - MIL. \$				DENIAL BASED ON	
			Under 50	50-100	100+	Competitiveness	Marital.	Finan- cial Res. *
Peotone Bank and Trust Company	Peotone Bancorp, Inc.	63 Fed. Res. Bull.	X					
Peotone, Illinois	Peotone, Illinois	748-49 (Aug. 1977)						
North Side Bank	Preferred Management Co.	63 Fed. Res. Bull.	X					
Omaha, Nebraska	Omaha, Nebraska	756-57 (Aug. 1977)						
Southern Bank & Trust Company	Southern Bank Holding	63 Fed. Res. Bull.	X					
Savannah, Ga.	Company	853-54 (Sept. 1977)						
The FNB of Guthrie	Savannah, Ga.							
Guthrie, Oklahoma	First Guthrie Bankshares, Inc.	63 Fed. Res. Bull.	X					
	Guthrie, Oklahoma	854-55 (Sept. 1977)						
The Jackson State Bank	Jackson Hole Banking Corporation	63 Fed. Res. Bull.	X					
Jackson, Wyoming	Jackson, Wyoming	934-35 (Oct. 1977)						
The FNB of Holyoke	Phillipsco, Inc.	63 Fed. Res. Bull.	X					
Holyoke, Colorado	Denver, Colorado	936-37 (Oct. 1977)						
Twin Lakes SB	Twin Lakes Financial Cor.	63 Fed. Res. Bull.	X					
Wichita, Kansas	Wichita, Kansas	937-38 (Oct. 1977)						
Swift County Bank	Benson Bankshares, Inc.	63 Fed. Res. Bull.	X					
Benson, Mn.	Benson, Mn.	1009-1011 (Nov. 1977)						
The Lavndale Trust & Savings Bank	GENA Financial Corp.	63 Fed. Res. Bull.	X					
Chicago, Ill.	Chicago, Ill.	1014-15 (Nov. 1977)						
Delhi Savings Bank	First of Iowa Bank	63 Fed. Res. Bull.	X					
Delhi, Iowa	Sharas Inc.	1015-17 (Nov. 1977)						
Lakeview Trust & Savings Bank	Delhi, Iowa							
Chicago, Illinois	Lakeview Bancorp, Inc.	63 Fed. Res. Bull.	X					
Century National Bank and Trust Co.	Northbrook, Ill.	1017-19 (Nov. 1977)						
New York, New York	Banco Exterior de Espana, S. A.	63 Fed. Res. Bull.	X					
Chickasha Bank & Trust Co.	Madrid, Spain	1079 (Dec. 1977)						
Chickasha, Oklahoma	Chickasha Bankshares, Inc.	63 Fed. Res. Bull.	X					
Citizens State Bank	Chickasha, Oklahoma	1082-83 (Dec. 1977)						
Hartford City, Ind.	Citizens Bancorp, Inc.	63 Fed. Res. Bull.	X					
Republic NB of Englewood	Hartford City, Indiana	1083-85 (Dec. 1977)						
Englewood, Colo.	Republic Bancorporation, Inc.	63 Fed. Res. Bull.	X					
	Englewood, Colorado	1098-99 (Dec. 1977)						



## BANK HOLDING COMPANIES

Year	Section	Approved	Denied
1976	3 (a) (1)	52	12
	3 (a) (3)	82	10
	3 (a) (5)	4	1
	4 (c) (8)	71 (134)	2
1975	3 (a) (1)	50	15
	3 (a) (3)	71	17
	3 (a) (5)	8	
	4 (c) (8)	78 (91)	5 (12)
	4 (d)	1	1
1974	3 (a) (1)	72	16
	3 (a) (3)	177	14
	3 (a) (5)	6	3
	4 (c) (8)	130 (255)	13 (23)
	4 (c) (12)	1	---
	4 (d)	1	1
1973	3 (a) (1)	57	1
	3 (a) (3)	288	18
	3 (a) (5)	9	1
	4 (c) (8)	332	143
	4 (d)	3	---
1972	3 (a) (1)	68	11
	3 (a) (3)	248	18
	3 (a) (5)	2	---
	4 (c) (8)	59	15
	4 (d)	4	2
1971	3 (a) (1)	51	2
	3 (a) (3)	143	15
	4 (c) (8)	6	1
	4 (c) (12)	1	---
	4 (d)	2	---
1970	3 (a) (1)	31	---
	3 (a) (3)	113	9
1969	3 (a) (1)	21	---
	3 (a) (3)	66	3
1968	3 (a) (1)	9	---
	3 (a) (3)	19 (33)	2
1967	3 (a) (1)	10	1
	3 (a) (3)	11 (16)	2
1966	3 (a) (1)	6	2
	3 (a) (3) & 3 (a) (2)	12 (15)	2
1965	3 (a) (1)	2	1
	3 (a) (2)	9	2
1964	3 (a) (1)	4	1
	3 (a) (2)	7 (8)	---
1963	3 (a) (1)	2	1
	3 (a) (2)	5 (7)	2 (3)
	4 (c) (6)	2	---
1962	3 (a) (1)	5	2
	3 (a) (2)	7 (16)	3
1961	3 (a) (1)	2	---
	3 (a) (2)	8 (9)	2 (3)
	4 (c) (6)	3	---

6 (a) (1)

## BANK COMPANIES - Page 2

Year	Section	Approved	Denied
1960	3 (a) (2)	9 (13)	1
	4 (c) (6)	1	3
1959	3 (a) (1)	1	---
	3 (a) (2)	9	---
	4 (c) (6)	15	2
1958	3 (a) (1)	1	3
	3 (a) (2)	3 (4)	1
	4 (c) (6)	1	1
1956 & 1957	3 (a) (2)	6 (7)	2
	4 (c) (6)	---	1

Multiple applications in parentheses.

Source: Annual Reports of the Board of Governors of the Federal Reserve System to Congress for the years 1956 to 1976,

6 (a) (2)